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SUBJECT: NEW OPEL RUSSIA: WORKING OUT THE DETAILS

REF: A. MOSCOW 1617
[1](#)B. MOSCOW 2296
[1](#)C. MOSCOW 2336

Classified By: ECON M/C Matthias Mitman for reasons 1.4 (b./d.)

Summary

[1](#)1. (C) It remains unclear how management, production, distribution, or sales will be handled by the Magna/Sberbank consortium, which was selected to purchase European Opel. GM CIS confirmed that both of its Russian production sites (the greenfield factory in St. Petersburg and the joint-venture with AvtoVAZ in Togliatti) had been included in the European Opel deal upon Magna/Sberbank's insistence. GM CIS still hopes to close on a joint venture project with GAZ Group in Nizhny Novgorod. In the meantime, the GOR may find that the Opel acquisition does not lead to the technology transfer it had envisioned during its lobbying process. End Summary.

New Opel Russia: Much More Than European Opel

[1](#)2. (C) In a recent meeting with us, GM CIS President Chris Gubbey and Director of New Business Development Heidi McCormack (U.S. citizen, please protect) confirmed that the Magna/Sberbank consortium had refused to bid on European Opel unless GM Russian production sites in St. Petersburg and Togliatti were included. (Note: The consortium comprises Magna, a Canadian auto parts manufacturer, and Sberbank, a GOR-owned bank, which will each acquire a 27.5 percent stake, while GM holds on to 35 percent and Opel workers receive the remaining 10 percent. GAZ Group, a car manufacturer based in Nizhny Novgorod and owned by Oleg Deripaska, is the consortium's "industrial partner". End Note.) GM's entire holding in the greenfield factory in St. Petersburg, which was opened less than a year ago, is now part of "New Opel". So is GM's 40 percent holding in its joint venture with AvtoVAZ in Togliatti, which produces the Chevy Niva 4x4 jeep.

[1](#)3. (C) Gubbey and McCormack told us that the sales and distribution networks for Chevrolets and Opels (as well as other GM brands), however, belonged to a different legal entity (GM DAT). GM DAT continued to exist and remained separate from "New Opel". To add further confusion, employees in Russia had worked interchangeably with the two legal entities, regardless of which entity had contracted their services. There had not yet been any discussions as to how the two entities would now work together or who would be

managing them. As McCormack pointed out, "Magna/Sberbank doesn't have 200 plus automotive manufacturing executives waiting in the wings". Gubbey and McCormack were equally uncertain about their own futures.

Joint Venture Uncertain As Well

14. (C) McCormack was also uncertain about the future of the USD one (1) billion joint venture that GM CIS had been negotiating with Deripaska's GAZ Group for the last two years. The joint venture would produce a new line of cars based on Opel technology in Deripaska's Nizhniy plant. (Reftel A.) She told us that GM CIS was prepared to launch immediately into the joint venture, but that, as yet, there was no clarity from GAZ Group.

15. (SBU) (Note: GAZ Group owner Oleg Deripaska is in the midst of restructuring USD 7.4 billion of loans from foreign banks due at the end of October. GAZ recently announced that it would lay off 15,000 employees by the end of 2009. Finally, Deripaska also owns Rusal, the aluminum concern that relied heavily on the ill-fated Sayano-Shushenskaya hydro-electric station. The latest estimates are that the station is not expected to be back up to full electricity production until 2014, which will likely result in higher electricity prices and potential supply reductions. End Note.)

GOR Needs Technology Transfer

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16. (C) Meanwhile, Sberbank head German Gref was quoted in the press as saying that, if the Opel deal does not result in the import of technologies, then "we'll have wasted our time". According to Mikhail Pak (protect), an analyst at ATON investment bank, the GOR is hoping to use imported technology both to produce cars for the Russian domestic market and for export. Pak told us that since science and technological education in Russia had become so inferior, it would be impossible for the requisite technology to be developed domestically. He noted that Russia had no choice but to try and purchase a technological edge at this point.

Comment

17. (C) As we have reported (reftels), Russian partners in the Opel deal unrealistically expected that GM technology would catapult Russia into the vanguard of auto production. As New Opel owners digest the fine print and understand that royalty payments do not translate into wholesale access to GM technology, the Russian side may try to renegotiate the terms of its acquisition.

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